

IOWA STATE ASSOCIATION OF COUNTIES

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2005 AND 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Iowa State Association of Counties

We have audited the accompanying statements of financial position of the Iowa State Association of Counties as of June 30, 2005 and 2004, and the related statements of activities, program activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa State Association of Counties as of June 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 19, 2005, on our consideration of the Iowa State Association of Counties' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit of the basic financial statements as of and for the year ended June 30, 2005, was made primarily to form an opinion on the consolidated financial statements taken as a whole. The supplemental information contained on page 14 is presented for the purposes of additional analysis and, although not required for a fair presentation of the financial position and changes in net assets, was subjected to the audit procedures applied in the audit of the basic financial statements. In our opinion, the supplemental information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
August 19, 2005

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IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

| | Iowa State Association of Counties | | Electronic Transactions | Eliminations | Total |
|---|------------------------------------|----------------------|-------------------------|--------------------|----------------------|
| | Association Activities | Program Activities | Clearinghouse | | |
| Cash and cash equivalents | \$ 370,212 | \$ 853,893 | \$ 33,827 | \$ - | \$ 1,257,932 |
| Investments | 726,011 | 16,279,042 | - | - | 17,005,053 |
| Accounts receivable | 18,480 | 89,518 | - | (17,050) | 90,948 |
| Due from Wellmark | - | 566,455 | - | - | 566,455 |
| Due from County Case Management Services | 38,633 | - | - | - | 38,633 |
| Interest receivable | 4,503 | 79,808 | - | - | 84,311 |
| Property and equipment, net of accumulated depreciation of \$165,710 | 81,315 | - | 15,384 | - | 96,699 |
| TOTAL ASSETS | \$ 1,239,154 | \$ 17,868,716 | \$ 49,211 | \$ (17,050) | \$ 19,140,031 |
| Accounts payable and accrued liabilities | \$ 12,896 | \$ 60,882 | \$ 17,050 | \$ (17,050) | \$ 73,778 |
| Funds held for benefit of members | - | 17,636,491 | - | - | 17,636,491 |
| Unearned premium revenue | - | 171,343 | - | - | 171,343 |
| Compensated absences | 93,867 | - | - | - | 93,867 |
| TOTAL LIABILITIES | 106,763 | 17,868,716 | 17,050 | (17,050) | 17,975,479 |
| NET ASSETS (including temporarily restricted net assets totaling \$80,000) | 1,132,391 | - | 32,161 | - | 1,164,552 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,239,154 | \$ 17,868,716 | \$ 49,211 | \$ (17,050) | \$ 19,140,031 |

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

| | Iowa State Association of Counties | | | Electronic Transactions | Eliminations | Total |
|--|------------------------------------|----------------------|----------------------|-------------------------|--------------------|----------------------|
| | Association Activities | Program Activities | Total | Clearinghouse | | |
| Cash and cash equivalents | \$ 276,303 | \$ 1,340,513 | \$ 1,616,816 | \$ 82,280 | \$ - | \$ 1,699,096 |
| Investments | 623,093 | 12,833,599 | 13,456,692 | - | - | 13,456,692 |
| Accounts receivable | 20,584 | 57,719 | 78,303 | - | (13,486) | 64,817 |
| Due from Wellmark | - | 544,737 | 544,737 | - | - | 544,737 |
| Due from County Case Management Services | 31,122 | - | 31,122 | - | - | 31,122 |
| Interest receivable | 3,385 | 116,271 | 119,656 | - | - | 119,656 |
| Property and equipment, net of accumulated depreciation of \$222,916 | 104,133 | - | 104,133 | 28,522 | - | 132,655 |
| TOTAL ASSETS | \$ 1,058,620 | \$ 14,892,839 | \$ 15,951,459 | \$ 110,802 | \$ (13,486) | \$ 16,048,775 |
| Accounts payable and accrued liabilities | \$ 5,994 | \$ 45,953 | \$ 51,947 | \$ 13,486 | \$ (13,486) | \$ 51,947 |
| Funds held for benefit of members | - | 14,846,886 | 14,846,886 | - | - | 14,846,886 |
| Unearned premium revenue | - | - | - | - | - | - |
| Compensated absences | 83,649 | - | 83,649 | - | - | 83,649 |
| TOTAL LIABILITIES | 89,643 | 14,892,839 | 14,982,482 | 13,486 | (13,486) | 14,982,482 |
| NET ASSETS - Unrestricted | 968,977 | - | 968,977 | 97,316 | - | 1,066,293 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,058,620 | \$ 14,892,839 | \$ 15,951,459 | \$ 110,802 | \$ (13,486) | \$ 16,048,775 |

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

| Iowa State Association of Counties | | | | |
|--|------------------------|---------------------|---------------------|---------------------|
| REVENUE | Association Activities | | Program | Total |
| | Budget | Actual | Activities | |
| Schools, workshops, committees & seminars | \$ 213,700 | \$ 257,199 | \$ - | \$ 257,199 |
| Contributions | - | - | 60,344 | 60,344 |
| Grants | - | 80,000 | - | 80,000 |
| Dues | 426,850 | 441,359 | - | 441,359 |
| Royalties | 176,000 | 190,515 | - | 190,515 |
| Investment income | 8,000 | 20,224 | 285,967 | 306,191 |
| Magazine advertising and subscriptions | 44,100 | 34,716 | - | 34,716 |
| Administration fees | 669,043 | 692,377 | - | 692,377 |
| County premiums | - | - | 18,556,810 | 18,556,810 |
| Miscellaneous | - | 12,374 | - | 12,374 |
| Total Revenues | 1,537,693 | 1,728,764 | 18,903,121 | 20,631,885 |
| EXPENSES | | | | |
| Salaries and fringe benefits | 1,074,308 | 1,051,070 | - | 1,051,070 |
| Schools, workshops and meetings | 84,500 | 120,673 | - | 120,673 |
| Board of Directors' meeting expenses | 20,500 | 27,449 | - | 27,449 |
| Other board authorized expense | 5,000 | 3,550 | - | 3,550 |
| NACO conference | 25,000 | 19,466 | - | 19,466 |
| Staff travel and training | 50,000 | 53,615 | - | 53,615 |
| Public relations | 4,000 | 4,336 | - | 4,336 |
| Consulting/professional services | 15,500 | 9,866 | - | 9,866 |
| Rents and utilities | 146,852 | 140,737 | - | 140,737 |
| Supplies, printing and postage | 38,500 | 22,483 | - | 22,483 |
| Computer supplies | 10,000 | 2,000 | - | 2,000 |
| Equipment rental and repair | 4,000 | 3,852 | - | 3,852 |
| Depreciation expense | - | 31,461 | - | 31,461 |
| Maintenance agreements | 17,800 | 15,234 | - | 15,234 |
| Professional membership | 3,000 | 3,533 | - | 3,533 |
| Library | 9,000 | 7,776 | - | 7,776 |
| Magazine | 34,000 | 31,552 | - | 31,552 |
| Insurance and bonds | 13,000 | 12,096 | - | 12,096 |
| Acquisition of property and equipment | 15,000 | - | - | - |
| Miscellaneous | 1,000 | 4,601 | 143,888 | 148,489 |
| Scholarships | - | - | 12,050 | 12,050 |
| Claims and premiums paid | - | - | 15,591,113 | 15,591,113 |
| Administration | - | - | 277,073 | 277,073 |
| Wellness program | - | - | 89,392 | 89,392 |
| Project management and development | - | - | - | - |
| Total Expenses | 1,570,960 | 1,565,350 | 16,113,516 | 17,678,866 |
| INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS | - | - | \$ 2,789,605 | 2,789,605 |
| INCREASE (DECREASE) IN NET ASSETS | \$ (33,267) | 163,414 | | 163,414 |
| NET ASSETS, BEGINNING OF YEAR | | 968,977 | | 968,977 |
| NET ASSETS, END OF YEAR | | \$ 1,132,391 | | \$ 1,132,391 |

The accompanying notes are an integral part of these financial statements.

| Electronic Transactions Clearinghouse | Eliminations | Total | Prior Year Total |
|---|--------------|--------------|------------------------|
| \$ - | \$ - | \$ 257,199 | \$ 229,772 |
| - | - | 60,344 | 39,269 |
| - | - | 80,000 | - |
| - | - | 441,359 | 427,315 |
| - | - | 190,515 | 221,165 |
| 554 | - | 306,745 | 78,398 |
| - | - | 34,716 | 38,456 |
| - | (3,564) | 688,813 | 641,835 |
| - | - | 18,556,810 | 23,516,691 |
| - | - | 12,374 | 3,181 |
| 554 | (3,564) | 20,628,875 | 25,196,082 |
| - | - | 1,051,070 | 1,027,995 |
| - | - | 120,673 | 77,477 |
| - | - | 27,449 | 24,213 |
| - | - | 3,550 | 5,610 |
| - | - | 19,466 | 12,092 |
| - | - | 53,615 | 49,763 |
| - | - | 4,336 | 2,341 |
| - | - | 9,866 | 11,049 |
| - | - | 140,737 | 134,987 |
| - | - | 22,483 | 27,251 |
| - | - | 2,000 | 4,113 |
| - | - | 3,852 | 1,782 |
| 13,138 | - | 44,599 | 44,326 |
| - | - | 15,234 | 15,270 |
| - | - | 3,533 | 3,158 |
| - | - | 7,776 | 8,579 |
| - | - | 31,552 | 35,385 |
| - | - | 12,096 | 13,283 |
| - | - | - | - |
| 820 | - | 149,309 | 203,463 |
| - | - | 12,050 | 12,000 |
| - | - | 15,591,113 | 18,430,883 |
| 7,064 | (3,564) | 280,573 | 265,020 |
| - | - | 89,392 | 102,412 |
| 44,687 | - | 44,687 | 217,883 |
| 65,709 | (3,564) | 17,741,011 | 20,730,335 |
| - | - | 2,789,605 | 4,273,490 |
| (65,155) | - | 98,259 | 192,257 |
| - | - | 968,977 | 874,036 |
| \$ (65,155) | - | \$ 1,067,236 | \$ 1,066,293 |

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

| Iowa State Association of Counties | | | | |
|---|------------------------|-------------------|-------------------|-------------------|
| REVENUE | Association Activities | | Program | Total |
| | Budget | Actual | Activities | |
| Schools, workshops, committees & seminars | \$ 215,330 | \$ 229,772 | \$ - | \$ 229,772 |
| Contributions | - | - | 39,269 | 39,269 |
| Grants | - | - | - | - |
| Dues | 422,850 | 427,315 | - | 427,315 |
| Royalties | 170,900 | 221,165 | - | 221,165 |
| Investment income | 15,000 | 8,435 | 69,163 | 77,598 |
| Magazine advertising and subscriptions | 33,000 | 38,456 | - | 38,456 |
| Administration fees | 629,025 | 655,321 | - | 655,321 |
| County premiums | - | - | 23,177,331 | 23,177,331 |
| Miscellaneous | 48,791 | 3,181 | - | 3,181 |
| Total Revenues | 1,534,896 | 1,583,645 | 23,285,763 | 24,869,408 |
| EXPENSES | | | | |
| Salaries and fringe benefits | 1,038,016 | 1,027,995 | - | 1,027,995 |
| Schools, workshops and meetings | 83,500 | 77,477 | - | 77,477 |
| Board of Directors' meeting expenses | 20,500 | 24,213 | - | 24,213 |
| Other board authorized expense | 5,000 | 5,610 | - | 5,610 |
| NACO conference | 18,000 | 12,092 | - | 12,092 |
| Staff travel and training | 50,000 | 49,763 | - | 49,763 |
| Public relations | 5,000 | 2,341 | - | 2,341 |
| Consulting/professional services | 18,500 | 11,049 | - | 11,049 |
| Rents and utilities | 142,225 | 134,987 | - | 134,987 |
| Supplies, printing and postage | 35,500 | 27,251 | - | 27,251 |
| Computer supplies | 10,000 | 4,113 | - | 4,113 |
| Equipment rental and repair | 4,000 | 1,782 | - | 1,782 |
| Depreciation expense | - | 33,597 | - | 33,597 |
| Maintenance agreements | 18,200 | 15,270 | - | 15,270 |
| Professional membership | 3,000 | 3,158 | - | 3,158 |
| Library | 9,000 | 8,579 | - | 8,579 |
| Magazine | 32,000 | 35,385 | - | 35,385 |
| Insurance and bonds | 13,000 | 13,283 | - | 13,283 |
| Acquisition of property and equipment | 40,000 | - | - | - |
| Miscellaneous | 1,000 | 759 | 201,958 | 202,717 |
| Scholarships | - | - | 12,000 | 12,000 |
| Claims and premiums paid | - | - | 18,430,883 | 18,430,883 |
| Administration | - | - | 265,020 | 265,020 |
| Wellness program | - | - | 102,412 | 102,412 |
| Project management and development | - | - | - | - |
| Total Expenses | 1,546,441 | 1,488,704 | 19,012,273 | 20,500,977 |
| INCREASE IN FUNDS HELD | | | | |
| FOR BENEFIT OF MEMBERS | - | - | \$ 4,273,490 | 4,273,490 |
| INCREASE (DECREASE) IN NET ASSETS | \$ (11,545) | 94,941 | | 94,941 |
| NET ASSETS, BEGINNING OF YEAR | | 874,036 | | 874,036 |
| NET ASSETS, END OF YEAR | | \$ 968,977 | | \$ 968,977 |

The accompanying notes are an integral part of these financial statements.

| Electronic Transactions Clearinghouse | Eliminations | Total |
|---|--------------|--------------|
| \$ - | \$ - | \$ 229,772 |
| - | - | 39,269 |
| - | - | - |
| - | - | 427,315 |
| - | - | 221,165 |
| 800 | - | 78,398 |
| - | - | 38,456 |
| - | (13,486) | 641,835 |
| 339,360 | - | 23,516,691 |
| - | - | 3,181 |
| 340,160 | (13,486) | 25,196,082 |
| - | - | 1,027,995 |
| - | - | 77,477 |
| - | - | 24,213 |
| - | - | 5,610 |
| - | - | 12,092 |
| - | - | 49,763 |
| - | - | 2,341 |
| - | - | 11,049 |
| - | - | 134,987 |
| - | - | 27,251 |
| - | - | 4,113 |
| - | - | 1,782 |
| 10,729 | - | 44,326 |
| - | - | 15,270 |
| - | - | 3,158 |
| - | - | 8,579 |
| - | - | 35,385 |
| - | - | 13,283 |
| - | - | - |
| 746 | - | 203,463 |
| - | - | 12,000 |
| - | - | 18,430,883 |
| 13,486 | (13,486) | 265,020 |
| - | - | 102,412 |
| 217,883 | - | 217,883 |
| 242,844 | (13,486) | 20,730,335 |
| - | - | 4,273,490 |
| 97,316 | - | 192,257 |
| - | - | 874,036 |
| \$ 97,316 | - | \$ 1,066,293 |

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF PROGRAM ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

Year Ended June 30, 2005

| | Health Fund | AD&D Fund | Unemployment Fund | Multi-County Service Agency Fund |
|---|----------------------|------------------|----------------------|--|
| REVENUE | | | | |
| Contributions | \$ - | \$ - | \$ - | \$ - |
| Investment income | 251,810 | 451 | 33,192 | - |
| County premiums | 18,179,049 | 123,935 | 253,826 | - |
| Total Revenues | 18,430,859 | 124,386 | 287,018 | - |
| EXPENSES | | | | |
| Miscellaneous | 126,919 | 497 | 81 | - |
| Scholarships | - | - | - | - |
| Claims and premiums paid | 15,299,480 | 124,563 | 167,070 | - |
| Administration | 242,704 | 10,071 | 24,298 | - |
| Wellness program | 89,392 | - | - | - |
| Total Expenses | 15,758,495 | 135,131 | 191,449 | - |
| INCREASE (DECREASE) IN FUNDS HELD FOR BENEFIT OF MEMBERS | 2,672,364 | (10,745) | 95,569 | - |
| FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR | 13,125,555 | 43,716 | 1,642,376 | 5,130 |
| FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR | \$ 15,797,919 | \$ 32,971 | \$ 1,737,945 | \$ 5,130 |

Year Ended June 30, 2004

| | Health Fund | AD&D Fund | Unemployment Fund | Multi-County Service Agency Fund |
|--|----------------------|------------------|----------------------|--|
| REVENUE | | | | |
| Contributions | \$ - | \$ - | \$ - | \$ - |
| Investment income | 51,960 | 106 | 16,999 | - |
| County premiums | 22,875,470 | 112,220 | 189,641 | - |
| Total Revenues | 22,927,430 | 112,326 | 206,640 | - |
| EXPENSES | | | | |
| Miscellaneous | 182,211 | 353 | - | - |
| Scholarships | - | - | - | - |
| Claims and premiums paid | 18,181,848 | 83,768 | 165,267 | - |
| Administration | 243,397 | 8,329 | 13,294 | - |
| Wellness program | 102,412 | - | - | - |
| Total Expenses | 18,709,868 | 92,450 | 178,561 | - |
| INCREASE IN FUNDS HELD FOR BENEFIT OF MEMBERS | 4,217,562 | 19,876 | 28,079 | - |
| FUNDS HELD FOR BENEFIT OF MEMBERS - BEGINNING OF YEAR | 8,907,993 | 23,840 | 1,614,297 | 5,130 |
| FUNDS HELD FOR BENEFIT OF MEMBERS - END OF YEAR | \$ 13,125,555 | \$ 43,716 | \$ 1,642,376 | \$ 5,130 |

The accompany notes are an integral part of these financial statements.

| Scholarship Fund | Total Program Activities |
|---------------------|--------------------------------|
| \$ 60,344 | \$ 60,344 |
| 514 | 285,967 |
| - | 18,556,810 |
| <u>60,858</u> | <u>18,903,121</u> |
| 16,391 | 143,888 |
| 12,050 | 12,050 |
| - | 15,591,113 |
| - | 277,073 |
| - | 89,392 |
| <u>28,441</u> | <u>16,113,516</u> |
| 32,417 | 2,789,605 |
| <u>30,109</u> | <u>14,846,886</u> |
| <u>\$ 62,526</u> | <u>\$ 17,636,491</u> |

| Scholarship Fund | Total Program Activities |
|---------------------|--------------------------------|
| \$ 39,269 | \$ 39,269 |
| 98 | 69,163 |
| - | 23,177,331 |
| <u>39,367</u> | <u>23,285,763</u> |
| 19,394 | 201,958 |
| 12,000 | 12,000 |
| - | 18,430,883 |
| - | 265,020 |
| - | 102,412 |
| <u>31,394</u> | <u>19,012,273</u> |
| 7,973 | 4,273,490 |
| <u>22,136</u> | <u>10,573,396</u> |
| <u>\$ 30,109</u> | <u>\$ 14,846,886</u> |

IOWA STATE ASSOCIATION OF COUNTIES
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004

| | <u>2005</u> | <u>2004</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 98,259 | \$ 192,257 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 44,599 | 44,326 |
| Realized and unrealized losses on investments | 80,870 | 265,719 |
| Change in: | | |
| Receivables | (55,360) | 290,198 |
| Interest receivable | 35,345 | (22,275) |
| Accounts payable and accrued liabilities | 21,831 | (13,694) |
| Funds held for benefit of members | 2,789,605 | 4,273,490 |
| Unearned premium revenue | 171,343 | - |
| Compensated absences | 10,218 | (1,944) |
| Net cash provided by operating activities | 3,196,710 | 5,028,077 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (8,643) | (52,917) |
| Proceeds from maturities and sales of investments | 8,154,125 | 4,402,563 |
| Purchases of investments | (11,783,356) | (10,130,263) |
| Net cash used by investing activities | (3,637,874) | (5,780,617) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (441,164) | (752,540) |
| CASH AND CASH EQUIVALENTS, beginning of year | 1,699,096 | 2,451,636 |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 1,257,932</u> | <u>\$ 1,699,096</u> |

The accompanying notes are an integral part of these financial statements.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Iowa State Association of Counties ("Association") was established in 1968 as a perpetual, non-profit corporation under the provisions of Chapter 504A of the Iowa Non-Profit Corporation Act.

The purposes for which the Association is organized are to maintain a permanent organization to secure cooperation among the counties of the State of Iowa and the public officers of the counties in a comprehensive study of local problems and in the application of knowledge obtained to procure efficient methods of local government.

The financial statements include the financial position and activities of the Electronic Transactions Clearinghouse (ETC). ETC was formed under Iowa Code Chapter 28E to provide the use of an electronic data interchange for Health Insurance Portability and Accountability Act (HIPAA) related transactions with member counties in Iowa. All significant intercompany accounts and transactions have been eliminated from the financial statements.

Program Services - The Association receives premiums and contributions from its members to fund health insurance benefit programs, an unemployment benefit program and other special programs. These funds and related investment earnings are held by the Association on the behalf of these members. Expenses incurred in providing benefits to the participating members are deducted from the funds held. The Association has a general understanding with its members that any excess funds will be used to pay for future benefits, reduce future premium charges or will be refunded to the participating members.

Functional Allocation of Expenses - The Statement of Activities and Statement of Program Activities present expenses by functional classification. Association expenses include all executive, financial administration, information systems, personnel, public relations and building rents and maintenance expenses. Program costs consist entirely of amounts directly related to the operation of each program. Administration costs totaling \$280,573 and \$265,020 during 2005 and 2004, respectively, were remitted by these programs to "Association Activities" and have been reported as revenues for "Association Activities" and as expenses for "Program Activities."

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated economic useful lives of the assets, ranging from five to fifteen years.

Income Tax Status - The Association has been determined to be exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Although the Association was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes income derived from advertisements in the monthly magazine. No provision for income taxes has been made in the accompanying financial statements as the direct and indirect costs associated with printing the magazine are greater than the advertising income derived.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk - The Association has bank deposits in excess of federally insured limits totaling approximately \$509,000 at June 30, 2005. This risk is managed by maintaining all deposits in high quality financial institutions. The Association also has funds totaling approximately \$560,000 invested in money market accounts not insured by the FDIC; however, the financial institution has pledged assets against approximately \$351,000 of these deposits.

Unearned Premium Revenue - Health insurance premiums are assessed to the participating counties on a monthly basis. Premiums collected in the current fiscal year relating to the subsequent fiscal year are presented as unearned county premium revenue.

Compensated Absences - Vacation earned, but unused, is recorded as a liability in the financial statements. The liability for these compensated absences is calculated using current rates of pay.

Royalty Income - The Association is a co-sponsor of the Iowa Public Agency Investment Trust and receives a royalty based upon a percentage of its members' deposits in the trust.

Cash and Cash Equivalents - The Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are presented as a component of changes in net assets. Fair value is determined using market prices. Investments are composed of the following:

| | 2005 | | |
|---|----------------------|----------------------|------------------------|
| | Cost | Fair Value | Unrealized Gain (Loss) |
| Certificates of deposit | \$ 1,799,135 | \$ 1,799,135 | \$ - |
| U.S. Treasury Notes | 891,861 | 897,890 | 6,029 |
| Federal Home Loan Bank Notes and Debentures | 8,803,526 | 8,793,193 | (10,333) |
| Federal Farm Credit Bank Notes and Debentures | 1,478,783 | 1,441,355 | (37,428) |
| Federal Home Loan Mortgage Corporation Notes | 3,090,395 | 3,076,480 | (13,915) |
| Federal National Mortgage Assn. Notes | 1,000,141 | 997,000 | (3,141) |
| | <u>\$ 17,063,841</u> | <u>\$ 17,005,053</u> | <u>\$ (58,788)</u> |

| | 2004 | | |
|---|----------------------|----------------------|------------------------|
| | Cost | Fair Value | Unrealized Gain (Loss) |
| Certificates of deposit | \$ 1,698,881 | \$ 1,698,881 | \$ - |
| U.S. Treasury Notes | 5,355,983 | 5,205,483 | (150,500) |
| Federal Home Loan Bank Notes and Debentures | 1,574,097 | 1,571,002 | (3,095) |
| Federal Farm Credit Bank Notes and Debentures | 1,506,508 | 1,491,719 | (14,789) |
| Federal Home Loan Mortgage Corporation Notes | 3,089,865 | 3,079,159 | (10,706) |
| Federal National Mortgage Assn. Note | 437,078 | 410,448 | (26,630) |
| | <u>\$ 13,662,412</u> | <u>\$ 13,456,692</u> | <u>\$ (205,720)</u> |

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE B - INVESTMENTS - continued

The fair value of investments at June 30, 2005 by contractual maturity is shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 2006 | 2007 | 2008 | Total |
|--|---------------------|---------------------|---------------------|---------------------|
| Certificates of deposit | \$ 535,698 | \$ 800,644 | \$ 462,793 | \$ 1,799,135 |
| U.S.Treasury Notes | 792,540 | 105,350 | - | 897,890 |
| Federal Home Loan Bank Notes and Debentures | 1,613,013 | 3,258,095 | 3,922,085 | 8,793,193 |
| Federal Farm Credit Bank Notes and Debentures | 1,441,355 | - | - | 1,441,355 |
| Federal Home Loan Mortgage Corporation Notes | 3,076,480 | - | - | 3,076,480 |
| Federal National Mortgage Association Notes | - | 495,800 | 501,200 | 997,000 |
| | <u>\$ 7,459,086</u> | <u>\$ 4,659,889</u> | <u>\$ 4,886,078</u> | <u>\$17,005,053</u> |

Following is a summary of the Association's investment income:

| | 2005 | 2004 |
|---|-------------------|------------------|
| Interest income, net of investment fees of \$31,619 and \$25,301 for 2005 and 2004, respectively | \$ 387,615 | \$ 344,116 |
| Net realized and unrealized losses on investments | (80,870) | (265,718) |
| Net investment income | <u>\$ 306,745</u> | <u>\$ 78,398</u> |

NOTE C - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment at June 30, 2005 and 2004:

| | 2005 | 2004 |
|-------------------------------|------------------|-------------------|
| Leasehold improvements | \$ 85,493 | \$ 85,493 |
| Equipment | 137,665 | 214,363 |
| Vehicles | - | 16,464 |
| Computer software | 39,251 | 39,251 |
| | <u>262,409</u> | <u>355,571</u> |
| Less accumulated depreciation | <u>(165,710)</u> | <u>(222,916)</u> |
| | <u>\$ 96,699</u> | <u>\$ 132,655</u> |

NOTE D - NET ASSETS

Net assets and grant income as of June 30, 2005 and for the year then ended, include \$80,000 of grant funds received, but not yet expended, that are temporarily restricted for technology projects.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE E - LEASE COMMITMENTS

The Association leases its office space under a long-term lease agreement. Following are the estimated annual future minimum lease payments, including estimated common area maintenance charges, under the office space lease:

| <u>Year Ending June 30,</u> | |
|-------------------------------------|-------------------|
| 2006 | \$ 115,648 |
| 2007 | 120,288 |
| 2008 | 124,284 |
| 2009 | <u>83,768</u> |
| Total future minimum lease payments | <u>\$ 443,988</u> |

Office rent expense totaled \$101,975 and \$100,460 during 2005 and 2004, respectively.

NOTE F - PENSION PLAN

The Association has a defined contribution pension plan in which all employees are eligible to participate. The plan is funded through the purchase of annuity contracts. Employer contributions are based upon length of employment. Employee contributions are voluntary, but to receive the employer contribution, the employee must contribute an amount equal to the lesser of the determined employer contribution or \$1,000. Employer contributions for the years ended June 30, 2005 and 2004 totaled \$28,032 and \$32,566, respectively.

NOTE G - CONTINGENT LIABILITIES

The Association administers a self-insured medical insurance program for member counties who elect to participate. The Association re-insures annual individual participant medical expenses in excess of \$100,000 through an agreement with an insurance carrier. The agreement, among other things, requires the carrier to cover all annual claims in excess of \$100,000 per participant and also aggregate annual claims in excess of 110% of the annual premium that would have been charged by the carrier had a similar insurance package been purchased directly from them. It is the Association's intention that the program will continue indefinitely and that the funds required to pay claims of the program participants would be limited to those available in the insurance fund. The Association does not record a separate liability for incurred but not reported (IBNR) claims. This liability is considered to be included in the Funds Held for the Benefit of Members' liability balance. The IBNR liability at June 30, 2005 and 2004 was estimated by an actuary to be \$2,064,030 and \$2,593,718, respectively.

The amount due from or to Wellmark, Inc., the third-party administrator of the program, results from the Association's cumulative transfer deposits to pay members' medical claims being more or less than the actual claims paid by Wellmark, Inc. at June 30.

IOWA STATE ASSOCIATION OF COUNTIES
NOTES TO FINANCIAL STATEMENTS

NOTE H - INTERGOVERNMENTAL RELATIONS EXPENDITURES

The Association's intergovernmental relations expense, which includes expenses incurred by and salaries paid to legislative representatives and lobbyists of the Association, consisted of the following for the years ended June 30, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|-------------------------------------|-------------------|-------------------|
| Salaries and other personnel costs | \$ 140,529 | \$ 175,128 |
| General operating expenses | 27,906 | 34,775 |
| Education/information expenses | 17,605 | 16,038 |
| Meetings, committees, and workshops | 25,593 | 25,532 |
| Property and equipment | 4,153 | 2,059 |
| | <u>\$ 215,786</u> | <u>\$ 253,532</u> |

SUPPLEMENTAL INFORMATION

IOWA STATE ASSOCIATION OF COUNTIES
COMBINING STATEMENT OF FINANCIAL POSITION -
PROGRAM ACTIVITIES
JUNE 30, 2005

ASSETS

| | Health Fund | AD&D Fund | Unemploy- ment Fund | Multi-County Service Agency Fund | Scholar- ship Fund | Total |
|---------------------------|----------------------|------------------|---------------------------|--|--------------------------|----------------------|
| Cash and cash equivalents | \$ 591,051 | \$ 33,834 | \$ 146,475 | \$ 5,130 | \$ 77,403 | \$ 853,893 |
| Investments | 14,740,943 | - | 1,538,099 | - | - | 16,279,042 |
| Accounts receivable | - | 10,635 | 78,883 | - | - | 89,518 |
| Due from Wellmark | 566,455 | - | - | - | - | 566,455 |
| Interest receivable | 70,813 | - | 8,995 | - | - | 79,808 |
| Total Assets | \$ 15,969,262 | \$ 44,469 | \$ 1,772,452 | \$ 5,130 | \$ 77,403 | \$ 17,868,716 |

LIABILITIES AND NET ASSETS

| | | | | | | |
|---|----------------------|------------------|---------------------|-----------------|------------------|----------------------|
| Accounts payable and accrued liabilities | \$ - | \$ 11,498 | \$ 34,507 | \$ - | \$ 14,877 | \$ 60,882 |
| Funds held for the benefit of members | 15,797,919 | 32,971 | 1,737,945 | 5,130 | 62,526 | 17,636,491 |
| Unearned revenue | 171,343 | - | - | - | - | 171,343 |
| Total Liabilities | 15,969,262 | 44,469 | 1,772,452 | 5,130 | 77,403 | 17,868,716 |
| NET ASSETS - unrestricted | - | - | - | - | - | - |
| Total Liabilities and Net Assets | \$ 15,969,262 | \$ 44,469 | \$ 1,772,452 | \$ 5,130 | \$ 77,403 | \$ 17,868,716 |



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Iowa State Association of Counties

We have audited the financial statements of the Iowa State Association of Counties (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Iowa State Association of Counties' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa State Association of Counties' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and the Association's management and is not intended to be and should not be used by anyone other than these specified parties.

McGowen, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
August 19, 2005

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